

Reverse Mortgages

Is One Right for You?



Department Of Real Estate
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California Department of Real Estate

GRAY DAVIS
Governor, State of California

MARIA CONTRERAS-SWEET
*Secretary of the Business,
Transportation and Housing Agency*

PAULA REDDISH ZINNEMANN
Real Estate Commissioner



Department Of Real Estate

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I. Reverse Mortgages

A. What's a Reverse Mortgage?

Perhaps you have heard the term “Reverse Mortgage” before; maybe someone has suggested one to you. What are Reverse Mortgages? If you are 62 years of age or older, they are a way to borrow against the equity in your home (the value of your home minus any mortgage debt you now have) to provide you with tax-free income. You continue to own, and live in, the home for the life of the loan. There are no loan payments until the loan ends. The money you receive can be in the form of:

1. *A lump sum of cash.*
2. *Regular monthly payments for your life or for as long as you live in the home.*
3. *Regular monthly payments for a fixed length of time.*
4. *A line of credit to draw on when you need it.*
5. *A combination of options 2 & 4 or options 3 & 4 above.*

Carefully read this booklet before you decide to pursue a Reverse Mortgage. It is designed to help you make a wise decision about the most valuable asset you may own — your home. This booklet outlines some of the things you should think about before applying for a Reverse Mortgage.

B. When is a Reverse Mortgage right for you?

A Reverse Mortgage **might** be worth considering if:

1. *You are committed to staying in your home, either because you don't want to leave or because other housing alternatives are unappealing or unaffordable.*
2. *You want to enhance your lifestyle and enjoy your golden years.*
3. *You want a cushion for major expenses such as medical bills for a serious or long-term condition, or for major home repairs.*
4. *You have a regular need for additional income to live on and your only significant asset is your home.*
5. *You want the peace-of-mind that comes from knowing your financial needs are taken care of.*
6. *You own your home free of debt or you have a small first mortgage.*
7. *You don't plan to leave your home to your heirs through inheritance.*

C. What are some of the potential advantages of Reverse Mortgages?

1. *A Reverse Mortgage can help you maintain your financial independence or improve your quality of life.*
2. *It allows you to remain in your home and keep title to your property.*
3. *The money you receive is tax-free. It is not usually considered income.*
4. *You make no payments (principal or interest) until the loan ends or the house is sold.*
5. *Your income is not a consideration in obtaining the loan since there are no payments until the loan ends.*
6. *You cannot owe more than the value of the house at the end of the loan.*

D. What are some of the potential drawbacks of Reverse Mortgages?

1. *Reverse Mortgages are even more complicated than conventional mortgages and the consequences of various options are not always obvious up front.*
2. *They may be relatively expensive compared to other alternatives.*
3. *Although the money you receive is tax-free, it may affect your eligibility for “need based” public assistance benefits such as Medicare, Supplemental Social Security Income (SSI) and Medicaid/MediCal*
4. *Reduces the equity you have in the property which could cause a potential negative impact for your heirs.*
5. *Reverse Mortgages are often not well understood, even by real estate and legal professionals. (Check out their experience before accepting their advice.)*

E. In general, what types of Reverse Mortgages are available?

1. *FHA-insured mortgages — Home Equity Conversion Mortgage (HECM).*
2. *Lender-insured.*
3. *Uninsured.*

Each type differs in the amount you can borrow, how the proceeds will be paid, and allowed expenses such as interest, closing costs and other fees.



F. What are some important questions to ask before choosing a Reverse Mortgage?

1. *How much money do I need?*
2. *Is there a way to meet my needs that does not involve getting a Reverse Mortgage?*
3. *Will a Reverse Mortgage make my partner or me ineligible for any government benefits — now or in the future?*
4. *Do I qualify for this Reverse Mortgage?*
5. *How much can I borrow through a particular Reverse Mortgage product?*
6. *How much will it cost me in fees and interest to borrow this money, even if I don't have any "out-of-pocket" expenses?*
7. *Will I have to sell my house before I die to pay off this Reverse Mortgage?*
8. *If I die, and my partner is still living in the home, will he or she have to leave or pay off the loan?*
9. *Will the loan become due and payable if I go to a long-term care or nursing home?*
10. *What will my heirs or I have left after the loan is paid off?*
11. *Are there any early-repayment penalties?*
12. *What are my obligations under the Reverse Mortgage, such as property maintenance, property taxes and insurance?*

1. This list of questions is reproduced from "Guarding the Golden Years. Reverse Mortgages" published by Consumers Union, West Coast Regional Office, 1535 Mission Street, San Francisco, CA 94103. Website: www.consumersunion.org

G. Six important things to do before you make a decision.

1. *Decide how long you expect to stay in this home. Reverse Mortgages are relatively expensive for the first 2-3 years. If a Reverse Mortgage doesn't work as a long-term solution, you should consider other options.*
2. *Consult with a HUD-approved Reverse Mortgage counselor before you apply. This information service is usually offered free of charge. A counselor can help you decide whether a Reverse Mortgage or some alternative best meets your needs. They can help you choose between the different kinds of Reverse Mortgages and answer your "what if" questions.*
3. *Decide if you really need a Reverse Mortgage. Another type of loan may be a less costly solution to*

meet your financial needs. A counselor can show you alternatives.

- 4. Include your family, especially grown children, in the decision-making process. Try to get consensus among your heirs before going ahead. If inheritance is an issue, adult children may be willing to help.*
- 5. Shop around and compare offerings! Not all Reverse Mortgages are the same. They can vary substantially in how much money you get — immediately and in the long-term, how the money is paid out, how much you pay in interest and other charges, and in other features.*
- 6. Determine if your Reverse Mortgage affects your eligibility for “need based” public assistance benefits you may receive.*

Do you still have questions? Read on. The rest of this booklet will try to make you more knowledgeable about Reverse Mortgages, answer some of the most frequently asked questions and provide pointers to sources of more detailed and specific information.

II. Reverse Mortgages — Frequently Asked Questions

A. What's in this section?

Reverse Mortgages are quite different from conventional mortgages. In this section we answer typical questions that potential borrowers ask. We encourage you to discuss more detailed and specific questions with a counselor. You'll find more information about locating a counselor in Section III.B.

B. What's “reverse” about a Reverse Mortgage?

You are probably familiar with conventional mortgages. With these, you borrow money and make payments to build equity in a home. You pay off the debt by making regular payments from your income until the loan principal and interest are paid. As you make payments, your equity (the home's value minus any mortgage debt) increases and your debt (loan balance) shrinks. If you fail to make regular payments, you could lose your home. With a Reverse Mortgage, you borrow against the equity you have built in your home to produce income, or a line of credit. The debt is paid off at the end of the loan by selling the home, or using other assets to pay off the loan. You cannot lose the house during the life of the Reverse Mortgage loan for not

making payments, because you don't have any payments to make. Meanwhile, the debt (loan balance including interest and fees) increases and your equity shrinks.

C. Won't that leave me in debt when I die?

Not in debt to the mortgage lender beyond the value of your home. The Reverse Mortgage lender can never require more repayment than the value of your home when it sells. This is called a non-recourse loan. When you or your surviving co-borrower dies, the sale of the house settles the loan. The lender does not have recourse to your other assets or to your heirs. If the loan ends for some other reason (such as if you move to an assisted living facility), the house will have to be sold or the loan paid off some other way. If you plan to leave your home to your children to inherit, think twice before you take out a Reverse Mortgage.



D. Isn't it risky to put myself into debt when I live on a fixed income?

There are certainly things to look out for; we will discuss these in the fourth section of this booklet. But in general the answer is "not usually." Think of it this way: when you bought your home, you depended on money you didn't yet have to pay off the loan (your income). With a Reverse Mortgage, the loan is paid by money you already have (the value of your home). The lender cannot require more than that. You could think of it as a loan that has already been paid.

E. How much money can I get?

The best short answer to that question is: "It depends." In general, the amount you can receive depends on five things:

1. *The mortgage program and program options you select.*
2. *The age of the youngest borrower when you take out the loan.*

3. *The appraised value of your home.*
4. *Current interest rates.*
5. *The amount of equity in your home.*

In any program, the most cash generally goes to the oldest borrower(s), living in the most expensive home, when interest rates are low. The youngest borrowers, living in the least expensive homes, when interest rates are high, get the least cash. But, it is important to remember that the amount you could get each month, and the total amount you could get over the life of the loan, depends on the program and options you select. No single program works best for everyone. We discuss programs and options further in the next section of this booklet.

F. How can I use the money from a Reverse Mortgage?

There are no restrictions on how you use the money from a Reverse Mortgage. Some borrowers use the proceeds of the loan to repair or remodel the home. Others use the money to improve their lifestyle — free themselves from financial worries, take more trips or keep the money in reserve (a line of credit) to handle future unplanned expenses. Still others receive regular payments to help pay their monthly bills or medical expenses. It's up to you.

G. Do I qualify for a Reverse Mortgage?

Different programs have different requirements, but most programs:

- *require the youngest borrower to be at least 62 years old at the time the loan closes;*
- *will loan on owner-occupied single-family homes (some programs will also loan on 2-4 unit owner-occupied dwellings, federally approved condominiums, planned unit developments or manufactured homes on foundations);*
- *will not loan on mobile homes or cooperative apartments;*
- *require that your home is your “principal residence,” meaning you must live there more than half of each year;*
- *require that your home meets minimum FHA property standards;*

- *require that you pay off any existing mortgage or other liens against your home before getting the Reverse Mortgage, or use an immediate cash advance from the Reverse Mortgage to pay them off. (If you cannot pay off the existing mortgage or don't qualify for a large enough cash advance, you will not be able to get a Reverse Mortgage.)*

While income and general credit history are not considerations for obtaining a Reverse Mortgage, if borrowers are a year or more delinquent in their property tax or insurance payments, an amount equal to three years of taxes and insurance may be set aside in the loan to pay them in the future.

H. What if one of the homeowners is under 62 years of age?

In this case, the only option for the younger homeowner is to make out a quitclaim deed, releasing their interest in the home to the borrower. The drawback is that when the borrower dies or leaves the home, the loan becomes due, and the home may have to be sold to pay it. If both borrowers are over 62 and own the home as joint tenants or in a family trust and one dies or leaves, the loan continues and the remaining borrower can continue to live in the home. For tenants-in-common there is no right of survivorship so when either party dies, the loan ends and must be paid.



I. How much will a Reverse Mortgage cost me?

Again, the short answer is: "It depends." Because costs vary so much between lenders, and are so difficult to compare, a standard of comparison has been developed called Total Annual Loan Cost (TALC). We will discuss this in more detail in the last section of this booklet. In general, costs come under three categories:

1. *When you apply for the loan, lenders charge an application fee, which pays for an appraisal to determine how much your home is worth and a check to see if you are delinquent on any federally insured loans. This out-of-pocket fee may not be refunded if you later change your mind about taking out the loan.*

2. *At the loan closing (signing), a number of fees take effect. Most of them can be financed. They become part of the loan, and would also accrue interest. Many of these fees are similar to those for conventional mortgages; others are unique to Reverse Mortgages. The two fees that generally vary the most between lenders are the origination fee and the ongoing fees for servicing the loan. You should check these fees specifically when comparing loans.*
3. *When the loan ends, there may also be shared equity or shared appreciation fees. These could entitle the lender to a percentage of the remaining value of the home. When comparing loans, check to see if there are any additional fees when the loan ends.*

J. What is expected of me as a homeowner during the life of the Reverse Mortgage?

The general requirements are:

1. *That you pay your property taxes on time.*
2. *That you keep your homeowner insurance current.*
3. *That you maintain your home in good repair.*

K. What about interest rates?

All current programs use adjustable interest rates, either computed annually or monthly (rarely semiannually), depending on the program. Most borrowers choose monthly rates; sometimes there is not a choice. Rates are usually a bit higher than for conventional mortgages, some are much higher. Shop around before deciding on a program.

L. When will the loan end and how much will I owe at the end of the loan?

Typically the loan ends when the last surviving co-borrower dies, moves away or doesn't live in the home for 12 consecutive months. If the loan is for a fixed amount of time (term), it becomes due when that time runs out. It is also possible the loan could end if you fail to meet the homeowner requirements mentioned above, though most lenders will work with you to meet those requirements.

The amount you owe at the end of the loan (your loan balance) consists of:

1. *All the money you borrowed, including any you used to pay loan-closing costs.*
2. *All the accrued interest on that money and any financed fees — up to the loan's non-recourse limit, the fair market value of your home.*

M. How do I pay off the loan?

In most cases, the loan is paid when the last surviving borrower dies or moves away. Some people choose to pay off the loan early. There are three ways of paying off the loan:

1. *You or your heirs can sell the house. Either the sale will cover the loan or it will net more than the loan. Any proceeds of the sale beyond what is required to pay off the mortgage belong to you or your heirs. The lender can never get more than the fair market sale price of the home. Your other assets and your heirs are safe.*
2. *Other assets you or your heirs have could be used to pay off the loan (for example: life insurance or stock). The lender gets the money and you or your heirs keep the house.*
3. *If there is enough equity left, you or your heirs can refinance the home (probably with a conventional mortgage) and pay off the loan that way.*

N. How does a Reverse Mortgage affect government benefits?

Social Security and Medicare benefits are not affected, since they are not based on income or assets. Supplemental Social Security Income (SSI) and Medicaid/MediCal do have income constraints. Loan advances generally do not affect your benefits if you spend them during the month in which you get them. If you don't spend them in that calendar month (keep them in a savings or checking account, for example), they count as "liquid assets" and could affect your eligibility. An annuity purchased with a Reverse Mortgage could also make you ineligible. Check with the local SSI or Medicaid office, a senior-citizen's attorney or a reverse mortgage counselor, to clear up any specific questions you may have.

O. What about income taxes?

Generally, the IRS does not consider loan payments made to you as income, so they are not taxed. The interest the lender charges you on the loan can only be deducted in the year the loan interest is paid, at the end of the loan. Annuities may count as taxable income. Talk with a tax professional for specific advice.

III. Reverse Mortgages — The Process

A. What's in this section?

In this section, we look at obtaining a Reverse Mortgage and some of the issues and things to think about in the process. This section describes the steps involved and takes a general look at the different programs. It does not include detailed cost and benefit comparison of program options for two reasons:

1. *In most cases, costs and benefits depend on local conditions — housing prices, interest rates, etc., which change with location and time. Any general comparison might be misleading.*
2. *“Preferred Counselors” for Reverse Mortgages have computer software that can give you a detailed analysis and comparisons for loans in your area that meet your needs. (More about Preferred Counselors later in this section.)*

B. What steps should I take to determine if a Reverse Mortgage is right for me?

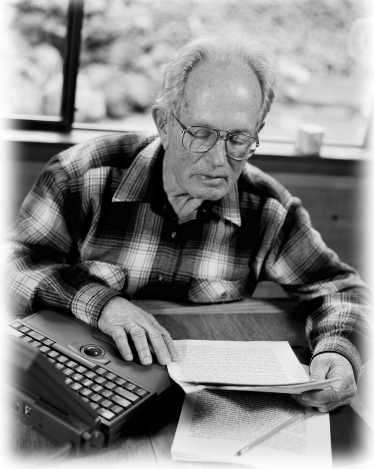
1. The first step is to find out how much money is coming in and how much is going out to get an accurate idea of your financial needs. This will become very important as you examine Reverse Mortgage programs and their options and alternatives. The approach suggested here follows an outline provided by the Federal National Mortgage Association (also known as Fannie Mae). A complete outline may be obtained from Fannie Mae. See the Resources Section for contact information.
 - a. *Locate and assemble all of the records that show your sources of income and expenses for the past year.*
 - b. *List your sources of spendable income. List all the funds available to you as spendable income, but do not include interest or other earnings that were immediately reinvested.*
 - c. *List all your expenses. These could include: mortgage payments, other debts, utilities, food, income taxes, property taxes, insurance, transportation, medical and dental not covered by insurance, clothing, recreation, gifts, holidays, vacations, etc.*
 - d. *Analyze your cash flow. If you are like most homeowners, you will probably see ways to make more efficient use of your assets. One*

way might be to use the equity in your home to generate additional income.

2. Make a budget for the next 12 months. Estimate all the income and expenses you expect over the next year.
 - a. *Using your cash flow statement, list regular monthly income and non-monthly income you expect each month for the next year — the amounts and the sources. Add the monthly and non-monthly amounts together to get an annual total.*
 - b. *Do the same thing for expenses for the next year.*
 - c. *Compare annual income and expense totals. If your total expected expenses are more than your total expected income, this indicates the amount of additional funding required to meet your needs.*
 - d. *Now that you have the numbers, list your financial goals in their order of importance. Start by thinking about your needs and wants, now and for the future. This gives you a good starting place, even though they may change. Now list the estimated cost to meet each of these goals. To calculate your funding needs as a “lump sum,” multiply the annual total by the number of years you plan to remain in your home.*

3. The next step is to locate a Reverse Mortgage counselor. To be better informed before you contact the counselor, or to locate one, you may wish to use the Internet from home or at the local library or senior center. A list of useful websites, phone numbers and publications is included at the end of this booklet. For the most up-to-date and detailed information, get acquainted with the National Center for Home Equity Conversion (NCHEC) website, www.reverse.org. It contains a wealth of helpful information and pointers to other useful sites. Your library may also have books that will help you learn more about Reverse Mortgages.

Now, about counselors. Some people in the real estate, financial planning and legal professions often have an incomplete understanding of Reverse Mortgages. If you do your homework, you may be surprised to find that you will develop a more complete understanding. Both the U.S. Department of Housing and Urban Development (HUD) and NCHEC websites provide lists, by state, of public or nonprofit organizations that



do Reverse Mortgage counseling. Some lists may not be up-to-date. A toll-free number (800-569-4287) can also be used to locate HUD-approved counselors. NCHEC “Preferred Counselors” work for nonprofit or public agencies, not lenders. They have detailed local information about lenders, program options and costs, and alternatives to consider. They pledge to:

- *Disclose all your options.*
- *Be unbiased.*
- *Be independent.*
- *Protect your privacy.*

Any counselor you use should be willing to make a similar pledge to you.

Why meet with the counselor before you contact a lender? There are several good reasons.

- a. *A counselor can help you consider all your options, some of which may not involve getting a Reverse Mortgage.*
- b. *A counselor can point you to all the Reverse Mortgage lenders in your area. (You may be surprised how few there are.)*
- c. *They can give you a “Personal Reverse Mortgage Analysis” and a comparison, in writing, of all the Reverse Mortgage programs available in your area.*
- d. *A counselor can point you to other sources of advice you may need.*
- e. *There is no pressure from a counselor to apply for a Reverse Mortgage.*
- f. *At the end of the counseling session, the counselor will provide you with a HUD Certificate of HECM Counseling, which you may need if you apply for a Reverse Mortgage loan.*

If you cannot locate a counselor within driving distance (most of them are located in urban areas), you can consult with one by phone. Not all Reverse Mortgage programs require counseling before applying for a loan but it's in your best interest to get it anyway.

However you do it, get this important information before you discuss specific programs with a lender and before you apply for a loan. Because of cost constraints, some independent counseling agencies have a nominal charge for their services (usually around \$75). What you learn can save you much more than that. One more note: not all counselors are equally knowledgeable. It's okay to ask how long they have been doing this type of counseling and how many clients they have worked with.

4. Your next step is to locate a lender. Your counselor will have names and contact information for lenders in your area. You can also find lender information in the resources listed at the back of this booklet. Applying for a Reverse Mortgage is similar to applying for a conventional mortgage. The process is somewhat more complicated because program options have to be selected and an annuity may be included. There are the usual inspection, appraisal, title insurance and broker fees. Typically, there are more fees than with a conventional mortgage. The lender is required by law to disclose the total cost of the loan. However, you may find this information difficult to understand. A counselor or senior attorney can help you make sense of it. If you are confused at any time, always ask to have it explained. After the lender processes the loan, there is a closing (signing) of the loan. Don't be surprised at the number of pages you will have to sign or initial. Read everything before you sign and always be sure you understand what you are signing.

By law, you have three business days after signing to change your mind and cancel the loan. After three days, you have access to the money under the payment option you chose. If there is an existing mortgage, it will be paid off at this time.

C. What are the most common Reverse Mortgage programs and options?

This is a relatively new and rapidly growing market, programs change and new ones appear over time, so we will describe

representative examples of currently available programs without trying to include them all. All the programs discussed use adjustable mortgage interest rates (ARM). However, the rates and the way they are calculated vary considerably from program to program. If you choose the line of credit option with any of these programs, there is a monthly service fee. Your counselor will have specific information about programs and options in your area.

1. By far, the most used program is HUD's Home Equity Conversion Mortgage (HECM). Most Reverse Mortgage lenders offer it. This federally insured program might give you more cash than other programs if your home is worth less than, or about as much as, the average home in your county. Here are some of the characteristics of the HECM program.
 - a. *This is the only federally insured program. This insures the lender in case the loan amount is more than the value of the home, and it ensures that your payments will continue no matter what happens to the lender. The premium is two percent of the loan amount plus one-half of one percent of the outstanding loan balance annually.*
 - b. *Independent counseling (and a counseling certificate) is required to obtain this loan.*
 - c. *All the payment options and combinations are available with this program except lump-sum payment.*
 - d. *You can take out a lump sum from the line of credit option. You can change your payment option during the life of the loan — for example, from a line of credit to monthly payments.*



- e. *This program often has the lowest interest rates over the life of the loan. It allows you to repay part of the principal and then borrow it again without restarting the loan and without a penalty.*
 - f. *A unique feature is that if you choose a line of credit, the amount of credit available to you grows larger each month the loan is in effect. This means the total amount you can borrow can become much larger over time.*
 - g. *One possible drawback of this program is that the appraised value of your home is not the only factor in determining how much you can borrow. The maximum loan amount is also limited by the “203-b-2” limit for your area. This is a fixed maximum home value, defined by HUD, which varies depending on the area where you live. In areas where housing is rapidly appreciating, you may find this limit much lower than the appraised value of your home.*
2. Fannie Mae's program is called Home Keeper. It may be appropriate if your home is worth slightly more than the average home in the county. Some characteristics of this program are:
- a. *The amount you can get from Home Keeper is sometimes higher than from HECM because Fannie Mae's maximum loan limit is higher than HUD's.*
 - b. *Independent counseling is required to obtain this loan.*
 - c. *The only payment option is monthly payments for as long as you live in the home (tenure), line of credit or a combination of the two.*
 - d. *If you choose the line of credit option, the maximum amount available does not grow.*
 - e. *A variation is called Home Keeper for Home Purchase that can help you “downsize” to a new home without making monthly mortgage payments.*
3. Financial Freedom, a private lender, has two programs. Borrowers with expensive homes, worth much more than the HUD limit, may consider using them.
- Equity Guard is a Reverse Mortgage Annuity program.
- a. *You either receive a lump sum of cash, purchase an immediate annuity or a combination of the two.*

- b. The annuity provides payments that continue for life, regardless of whether you remain in your home.*
- c. Counseling is required but does not have to be done by an independent counselor.*
- d. The loan becomes due when the borrower or surviving co-borrower no longer lives in the home (as his principal residence) or dies.*
- e. At maturity, the lender receives the percentage of the home value (up to 80%) you pledged when the loan was obtained. The remaining value returns to you or your estate.*
- f. If the value of the home when it is sold is less than the pledged amount, the lender can only claim the sale price of the home.*
- g. This program is usually most cost effective if you plan to stay in your home for a number of years.*
- h. There may be income tax considerations in connection with the annuity option and it may affect your eligibility for "need based" public assistance.*

Cash Account is a line of credit program.

- a. An open-ended line of credit with a maximum limit is established for the borrower. The money can be borrowed, repaid and borrowed again.*
- b. The loan ends when the borrower or surviving co-borrower dies or leaves the home.*
- c. It does not include an annuity.*
- d. When the loan ends, principal, interest and fees are paid to the lender, but not more than the sale price of the home.*
- e. There is an "equity sharing" option that increases the amount that can be borrowed in return for giving the lender a share of the appreciated value of the home when it is sold.*

The interest rates for both these Financial Freedom programs may be considerably higher than HECM rates.

IV. Reverse Mortgages — Things to Consider

Things to consider before applying for a Reverse Mortgage.

1. *Scams and frauds*

Although most Reverse Mortgage brokers and lenders are ethical, some scams have been reported. If you receive an offer from an “estate planning” service, by phone or mail, to put you in touch with a Reverse Mortgage lender, the solicitor may want you to pay a substantial fee for that service. HUD, Fannie Mae and most lenders will not allow such a fee, since the information is available for little or no cost from a counselor or an Internet site. Do not sign a service agreement that includes a fee for this service. Also, be careful of solicitations that come by phone or mail.

2. *Alternatives to Reverse Mortgages*

There may be alternative ways of obtaining financial relief without taking out a Reverse Mortgage. For example: if there is a problem making property tax payments, the California State Franchise Tax Board offers a tax postponement service that works much like a Reverse Mortgage. It is available to homeowners who are 62 years or older, own their home (there can be a mortgage), and have an annual income of \$24,000 or less. The interest rate is much lower than for a Reverse Mortgage. The phone number to obtain an application and further information is 1-800-952-5661.



If the home is in need of repairs that you cannot afford to make, your local Housing and Redevelopment Agency may have a Senior Loan Program that can help. These loans also do not require repayment until the home is sold or you move out. Interest rates are either low or there is no interest charge. Programs for emergency repairs such as building ramps, widening doorways, etc. may also be available. Check the white pages of your phone book under your county or city name followed by "Housing."

Assistance programs may be available for those with special needs — blind, disabled, veterans — through these same agencies. A Reverse Mortgage counselor will have the most current information about all these programs in your area.

If you decide to take out a Reverse Mortgage after you have signed up for any of these assistance programs, ask if they can be subordinated to the new loan. Subordination means that you do not have to pay off this loan in order to obtain the new one. Instead, the assistance loan becomes secondary to the Reverse Mortgage. Many agencies will do this if they think it appropriate.

3. Things to consider before closing the loan

- a. Compare loan costs. Federal Truth-in-Lending regulations require the lender to disclose the Total Annual Loan Cost (TALC) on all Reverse Mortgages at various points in time. But lenders are not required to make this disclosure until after you apply for a loan. NCHC "Preferred Counselors" and some lenders have Personal Reverse Mortgage Analysis software that overcomes such difficulties. This is another good reason to consult a counselor before you apply for a loan.*
- b. Among the most important variables in the total cost of Reverse Mortgages are the fees that are charged at the beginning and during the loan. These could include origination fees, points, mortgage insurance premiums, closing costs, monthly servicing fees, shared equity or appreciation fees. Be sure you know what you are committing to pay.*

- c. *Most fees are assessed at the start of the loan and make up a large portion of the total loan costs in the first few years. Terminating a Reverse Mortgage after a year or two can be very costly.*
- d. *Many lenders and brokers listed by HUD and Fannie Mae also sell Reverse Mortgage products from other sources. Be sure you understand which program they are suggesting.*
- e. *Beware of “shared appreciation” or “shared equity” fees. These give the lender a share of any increase in the value of the home between the time the loan is closed and when it ends (usually in return for a larger loan amount). They can significantly increase the cost of the loan.*
- f. *Reverse Mortgage loan documents can be long and confusing. At the closing, you will be expected to sign or initial many pages. If you find any of the terms confusing or you are uncertain about what they commit you to do, get independent advice before you sign. This is particularly important if the loan you are considering includes an annuity, since an annuity can have undisclosed income tax and “needs based” assistance implications depending on the contract language.*

4. During the life of the loan

- a. *Refinancing a Reverse Mortgage can be very costly. HUD and Fannie Mae programs have some flexibility in the way payments are made, which may make refinancing unnecessary. Consider the costs carefully before deciding to refinance.*
- b. *Be sure to keep your property tax and homeowner insurance premiums current. Failing to do so may lead to additional charges from the lender or termination of the loan. If you are having difficulty making payments, contact your lender. It may be possible to arrange to make payments using loan funds.*

A Reverse Mortgage may be exactly what you need to improve your lifestyle or maintain your financial independence. Other alternatives may work better or be less expensive. The best way to be sure you made the correct choice is to be as well informed as possible before making a decision. The following resources section provides pointers to more detailed and specific information.

V. Resource Pages

What's in this section?

This section contains information on obtaining more detailed information about Reverse Mortgages, things to be aware of, and alternatives. Contacting these sources will give you a more complete picture of the Reverse Mortgage market and its issues.

What information is available?

At this time, the Internet has the most information sources. Most of them cover the same basic subjects discussed in this booklet but a few contain additional information. If you are unfamiliar with how the Internet works, the staff at your library or Senior Center can help you. Addresses and toll-free phone numbers you can use to become better informed are listed. We also point you to useful books and videos.

- National Center for Home Equity Conversion (NCHEC)
360 N. Robert, Suite 403
St. Paul, MN 55101
1-651-222-6775
www.reverse.org

NCHEC is an independent, nonprofit organization dedicated to helping seniors make educated decisions about Reverse Mortgages.

- AARP Home Equity Information Center
601 E Street N.W.
Washington, DC 20049
1-800-209-8085
5 a.m.- 5 p.m. Pacific Time
www.aarp.org/hrevmort/

This website is a good source of basic information and tips on selecting counselors and lenders. They also publish a free consumer's guide on Reverse Mortgage borrowing, "Home Made Money." This completely rewritten book can be read on-line or printed. A two-part video "Reverse Mortgage Choices" is available for a \$5.00 shipping and handling charge.

- U. S. Department of Housing and Urban Development
Washington, DC 20410-8000
1-888-466-3487 or 1-800-217-6970
www.hud.gov and www.hudhcc.org

These websites provide useful information about senior housing issues. They include information about HECM and Fannie Mae programs and lists HUD-approved counselors and lenders.

- Federal National Mortgage Association (Fannie Mae)
1-800-732-6643

www.homepath.com

This website contains descriptions of HECM and Fannie Mae programs, answers to frequently asked questions, lender information and the complete financial needs assessment outline mentioned earlier. They also publish a free guide, "Money from Home: A Consumer's Guide to Reverse Mortgages," which can be ordered by phone.

- Consumers Union, West Coast Regional Office
1535 Mission Street
San Francisco, CA 94103
1-415-431-6747

www.consumersunion.org

Consumers Union has several publications ("Guarding the Golden Years. Reverse Mortgages" and "Reverse Mortgage Consumer Tip Sheet") that describe benefits and things to look out for with Reverse Mortgages. Both of these can be printed from the website. They have recently published a detailed, 59-page analysis of the advantages and pitfalls of Reverse Mortgages for California consumers, "There's No Place Like Home: The Implications of Reverse Mortgages on Seniors in California."

- National Reverse Mortgage Lenders Association
1625 Massachusetts Avenue, N.W., Suite 601
Washington, DC 20036
1-202-939-1760

www.reversemortgage.org

This website includes detailed overviews of HECM, Fannie Mae, and Financial Freedom (a private lender) programs. There is also a list of lenders. The nonprofit association is funded by member lending institutions.